

Message Text

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USEEC, PARIS ALSO FOR USOECD

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TAGS: EEC, EFIN

SUBJ: EC FINANCE COUNCIL, JULY 18, 1977: RESULTS

REF: BRUSSELS 5452

1. SUMMARY

DURING THEIR JULY 18 COUNCIL MEETING, THE EC FINANCE
MINISTERS RECEIVED A REPORT ON THE BELGIAN PRESIDENCY'S
WORK PROGRAM FOR THE NEXT SIX MONTHS, AGREED IN
PRINCIPLE TO GUIDELINES FOR EC ECONOMIC POLICY AND FOR
THE PREPARATION OF COMMUNITY AND MEMBER STATE 1978
BUDGETS, AND BRIEFLY DISCUSSED THE COMMISSION'S PROPOSAL
FOR A COMMUNITY BORROWING SCHEME. END SUMMARY.

2. BELGIAN PRESIDENCY WORK PROGRAM:

BELGIAN FINANCE MINISTER GASTON GEENS (THE COUNCIL
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PRESIDENT) FORMALLY PRESENTED THE BELGIAN PRESIDENCY'S
WORK PROGRAM FOR THE NEXT SIX MONTHS. THERE FOLLOWS A
SUMMARY OF GEENS' REMARKS TO THE COUNCIL:

A. REDUCTION OF DIFFERENCES IN ECONOMIC AND
MONETARY CONDITIONS BETWEEN MEMBER STATES:

IN ORDER TO REDUCE INFLATION RATE DIFFERENCES AMONG MEMBER STATES, PROBSEATER EQUILIBRIUM IN BALANCE OF PAYMENTS OF CURRENT AND CAPITAL ACCOUNTS, AND CONTRIBUTE TO GREATER STABILITY IN CURRENCY MARKET, THERE SHOULD BE INCREASED EC EFFORTS TO IMPROVE COORDINATION OF MONETARY AND BUDGETARY POLICIES, TO BE ACCOMPANIED BY ADJUSTMENT OF CREDIT MECHANISMS. THERE SHOULD ALSO BE AN EXPANSION OF AVAILABLE CREDITS, BUT THESE SHOULD BE MADE SUBJECT TO MORE STRINGENT TERMS. THEMEMBER STATES SHOULD DEFINE THE OBJECTIVES OF THEIR MONETARY AND BUDGETARY POLICIES AND INDICATE, IN EACH CASE, WHICH TARGET - INTERNAL OR EXTERNAL BALANCE - SHOULD TAKE PRECEDENCE IN THE EVENT OF CONFLICT. FUTURE EC-LEVEL CONSULTATIONS ON THESE OBJECTIVES SHOULD ALSO ADDRESS MEANS TO BE USED BY EACH MEMBER STATE (E.G. INTEREST RATES) TO ACHIEVE THEM. INTERMEDIATE MONETARY SUPPLY AND CREDIT TARGETS CHOSEN BY MONETARY AUTHORITIES IN EACH MEMBER STATE SHOULD ALSO BE COORDINATED AND SHOULD BE COMPLEMENTED BY "PRECISE AND COMPATIBLE BUDGETARY TARGETS." TURNING SPECIFICALLY TO THE QUESTION OF ADJUSTMENT OF CREDIT MECHANISMS WITHIN THE EC, GEENS OFFERED TWO PROPOSALS:

(I) EXPANSION OF SHORT TERM MONETARY SUPPORT QUOTAS: SUCH INCREASES WOULD BE MADE AVAILABLE ONLY IF APPLICANTS HAD ACCEPTED AND OBSERVED THE AGREED INTERMEDIATE LIMITED OFFICIAL USE

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MONETARY AND BUDGETARY TARGETS. GEENS POINTED OUT THAT SHORT TERM QUOTAS DETERMINE THE AMOUNT OF CREDIT WHICH MAY BE GRANTED UNDER THE TERMS OF THE SNAKE; THEIR INCREASE WOULD THUS ALSO MEAN A STRENGTHENING OF THE SNAKE AND WOULD PROMOTE, AS WELL, THE CONVERGENCE OF THE ECONOMIES OF THE MEMBER STATES PARTICIPATING IN THE SNAKE. GEENS ALSO PROPOSED THAT COMMISSION VICE PRESIDENT ORTOLI ATTEND MEETINGS OF THE MINISTERS AND GOVERNORS OF THE SNAKE.

(II) AN INCREASE IN MEDIUM-TERM CREDIT, ON THE CONDITION THAT IT BE PAID OUT IN INSTALLMENTS, SUBJECT TO OBSERVANCE OF PRECISE TERMS LAID DOWN FOR EACH INSTALLMENT.

B. REDUCTION OF STRUCTURAL DIFFERENCES BETWEEN MEMBER STATE ECONOMIES:

THERE SHOULD BE BETTER COORDINATION BETWEEN THE REGIONAL AND SOCIAL FUNDS, THE EAGGF GUIDANCE SECTION, AND THE EUROPEAN INVESTMENT BANK, WITH THE AIM OF BUILDING A JOINT EC STRUCTURAL POLICY AND OF ENCOURAGING THE DEVELOPMENT

OF KEY INDUSTRIES IN THE TECHNOLOGICAL SECTOR. EFFORTS SHOULD ALSO BE MADE TO "REORGANIZE DECLINING INDUSTRIES AND TO IMPLEMENT A NEW INTERNATIONAL ECONOMIC ORDER." GEENS RECOMMENDED AN INCREASE IN EIB OPERATIONS TO FINANCE INVESTMENT IN THE EC'S LEAST DEVELOPED REGIONS AND CALLED FOR INCREASED EIB SUPPORT FOR ENERGY SECTOR INVESTMENTS. HE ASKED THAT THE COMMISSION'S PROPOSALS CONCERNING INVESTMENT AND LOANS BE EXAMINED "THOROUGHLY AND WITHOUT DELAY IN A CONSTRUCTIVE SPIRIT."

C. FISCAL HARMONIZATION:

THERE SHOULD BE EARLY APPROVAL OF THE LONG-DELAYED DRAFT

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DIRECTIVE ON A COMMON SYSTEM OF TAXATION APPLYING TO MERGERS BETWEEN COMPANIES OF DIFFERENT MEMBER STATES. GEENS CALLED, AS WELL, FOR ADOPTION OF A FINAL REGULATION LAYING DOWN THE METHOD OF CALCULATION OF EC REVENUE FROM VAT UNDER THE "OWN RESOURCES SYSTEM." REGARDING TAX EVASION, HE CALLED FOR APPROVAL OF TWO DRAFT DIRECTIVES ON MUTUAL ASSISTANCE BY MEMBER STATES ON DIRECT TAXATION AND COLLECTION OF VAT AND EXCISE DUTIES. GEENS PROPOSED THAT A SPECIAL COUNCIL MEETING ON FISCAL AFFAIRS BE HELD BEFORE THE END OF THE YEAR TO DISCUSS BETTER COORDINATION OF EFFORTS AGAINST TAX EVASION.

D. SINGLE EC VOICE IN INTERNATIONAL MEETINGS;

THE EC SHOULD SPEAK WITH A SINGLE VOICE ON ECONOMIC AND MONETARY PROBLEMS--E.G., AT THE SEPTEMBER MEETING OF THE IMF INTERIM COMMITTEE AND THE ANNUAL MEETING OF THE IMF.

E. COUNCIL WORK PROGRAMS:

GEENS PROPOSED THE FOLLOWING COUNCIL WORK PROGRAM:
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SEPTEMBER 19: PREPARATIONS FOR THE IMF MEETINGS (THE MONETARY COMMITTEE WOULD DISCUSS THESE ON SEPTEMBER 9.

OCTOBER 17: DISCUSSION OF GEENS' PROPOSALS FOR ADAPTATION OF SHORT-TERM AND MEDIUM-TERM MECHANISMS AND OF THE COMMISSION'S PROPOSED BORROWING SCHEME.

NOVEMBER 21: EXAMINATION OF THE ECONOMIC SITUATION AND COMPLETION OF THE REPORT ON PROGRESS TOWARDS ECONOMIC AND MONETARY UNION REQUESTED BY THE MARCH 1977 EUROPEAN COUNCIL.

END GEENS REMARKS (FULL TEXT BEING SENT BY AIRGRAM).

3. GEENS TOLD REPORTERS AFTER THE MEETING THAT HIS PROPOSALS WERE ACCEPTABLE TO THE COUNCIL. THE PROPOSALS WILL NOW GO TO THE MONETARY COMMITTEE, THE COMMITTEE OF CENTRAL BANK GOVERNORS, AND COREPER FOR REVIEW PRIOR TO FURTHER COUNCIL DISCUSSION IN OCTOBER. HOWEVER, FRG STATE SECRETARY SCHLECHT TOLD REPORTERS HIS GOVERNMENT WAS "RESERVED" FOR THE TIME BEING ON THE GEENS PROPOSALS REGARDING CREDIT MECHANISMS, ADDING THAT THE PROBLEM FOR MEDIUM-TERM CREDITS, IN PARTICULAR, CENTERS UPON WHETHER "CONDITIONS" WOULD BE RESPECTED.

4. SECOND QUARTERLY EXAMINATION OF EC ECONOMIC SITUATION:

THE MINISTERS RECEIVED A REPORT FROM THE COMMISSION ON
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THE GENERAL ECONOMIC SITUATION AND THE OUTLOOK FOR THE COMMUNITY IN 1977-78 AND ON MONETARY, BUDGETARY, AND

FINANCIAL POLICY GUIDELINES FOR THE COMMUNITY (ANALYSIS WILL BE PROVIDED SEPTEL). ACCORDING TO A COMMISSION SPOKESMAN, ORTOLI ALSO MADE THE FOLLOWING POINTS IN REMARKS TO THE COUNCIL:

(A) THERE HAS BEEN SOME IMPROVEMENT OF MEMBER STATE BALANCE OF PAYMENTS, BUT THIS HAS BEEN MATCHED BY SLOW-DOWN OF OVERALL ECONOMIC ACTIVITY. THERE HAS ALSO BEEN IMPROVEMENT IN PRICE LEVELS.

(B) MEMBER STATES ARE GENERALLY ADHERING TO AGREED 1977 OBJECTIVES.

(C) SURPLUS COUNTRIES HAVE A SPECIAL RESPONSIBILITY TO PROVIDE NEW IMPETUS TO ECONOMIC ACTIVITY.

(D) INVESTMENTS SHOULD BE ENCOURAGED IN VIEW OF THEIR CENTRAL ROLE IN RESTORING ECONOMIC CONFIDENCE.

5. THE COMMISSION SPOKESMAN SAID THAT SCHLECHT RESPONDED TO ORTOLI'S PRESENTATION BY ASSERTING THAT THE FRG SEES NO REASON AT THE MOMENT TO ACCELERATE THE GERMAN ECONOMY. ACCORDING TO THE SPOKESMAN, SCHLECHT ADDED THAT, ALTHOUGH HIS GOVERNMENT RECOGNIZES THAT FRG GROWTH FOR 1978 WILL NOT BE SUFFICIENT, IT BELIEVES THERE IS A NEED TO WAIT UNTIL FRG ASSESSMENTS ARE MADE "THIS AUTUMN" BEFORE DECIDING WHETHER TO STIMULATE THE ECONOMY. ORTOLI EXPRESSED UNDERSTANDING FOR SCHLECHT'S POSITION, ADDING THAT THE COMMISSION HAS NEVER ASKED FOR AN UNREASONABLE FRG POLICY.

6. THE COUNCIL SUBSEQUENTLY AGREED IN PRINCIPLE ON THE ECONOMIC POLICY GUIDELINES SET FORTH IN THE COMMISSION PAPER (WITH MINOR CHANGES FOR ITALY, IRELAND, AND BELGIUM) LIMITED OFFICIAL USE

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BELGIUM) AND ON THE DRAFT COUNCIL DECISION ON PREPARATION

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OF PUBLIC BUDGETS FOR 1978. THESE ARE NOW SUBJECT ONLY
TO A UK WAITING RESERVE, TO ALLOW SUBMISSION TO U.K.
PARLIAMENTARY COMMITTEES.

7. COMMUNITY BORROWING SCHEME:

THE MINISTERS MADE NO FURTHER PROGRESS IN THEIR DIS-
CUSSION OF THE COMMISSION'S PROPOSAL FOR A COMMUNITY
BORROWING SCHEME (REFTEL). THE MONETARY COMMITTEE AND
THE ECONOMIC POLICY COMMITTEE ARE TO CONTINUE TECHNICAL
EXAMINATION OF THE PROPOSAL. COREPER IS TO REPORT TO
THE MINISTERS BY OCTOBER 17, IN LIGHT OF THE REVIEW
UNDERTAKEN BY THOSE TWO BODIES. THOUGH HE DID NOT
SPECIFY WHETHER HE HAD MADE THE POINT DURING THE COUNCIL,
FRENCH ECONOMIC MINISTER ROBERT BOULIN INDICATED TO
REPORTERS THAT HIS GOVERNMENT COULD SUPPORT THE
COMMISSION PROPOSAL, PROVIDED THE SCHEME DID NOT INVOLVE
MORE THAN THE ONE BILLION UNITS OF ACCOUNT ORIGINALLY
PROPOSED, AND PROVIDED THAT ALL FUNDS WERE MANAGED BY
THE EIB, WITH COUNCIL APPROVAL OF EACH TRANCHE.
(COMMENT: BOULIN'S STATEMENT WOULD APPEAR TO INDICATE
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THAT THE FRG IS ISOLATED IN ITS COMPLETE OPPOSITION TO
THE SCHEME.)HINTON

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Message Attributes

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